

WRITTEN STATEMENT
OF
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Before the
SUBCOMMITTEE ON FINANCIAL INSTITUTIONS AND
CONSUMER CREDIT

of the
COMMITTEE ON FINANCIAL SERVICES
U.S. HOUSE OF REPRESENTATIVES

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Chairman Bachus, and members of the Subcommittee, good morning. My name is Mike Farmer, and I am Senior Vice President of Risk Management Operations for Wachovia Bank Card Services. Thank you for the invitation to participate in this hearing on Internet gambling.

I have worked in the credit and debit card industry for fourteen years in various roles, but most intently focusing on risk management. In my current position, I have responsibility for fraud and credit losses, and authorization system performance.

Late in 1999, Wachovia was issued several summonses on lawsuits involving Internet gambling. Our cardholders that incurred Internet gambling losses on their credit cards were calling upon the law to protect them from debt repayment citing the transactions as illegal. In the absence of an immediate decision on the lawsuits, Wachovia developed a policy to decline Internet gambling charges to mitigate our risk of loss.

This policy was executed by systemically using the payment systems' merchant category code and electronic commerce indicators to identify and decline Internet gambling transactions. In order to communicate this policy, the following message has been periodically communicated to our customers on their billing statements:

Please note: due to various state legal restrictions governing gaming activities, Wachovia will no longer authorize Internet gambling transactions made with your Wachovia credit card.

It is understood that while the policy is being executed, its effectiveness is based entirely on the integrity of the data passing through the system. As Wachovia and other issuers deny authorization for Internet gambling transactions, there are considerable incentives for merchants to circumvent this policy. For example, Internet casinos may seek to conceal the true nature of their transactions by altering the data message to make themselves appear to be a merchant type other than gambling. In cases such as this, Internet gambling charges may be unknowingly approved in the authorization system. In addition, alternate payment types can be used to complete Internet gambling transactions. For example, a gambler may use a payment card or checking account or other source of funds to establish an electronic cash account with a third party, which then could be used for Internet gambling. Wachovia's systems would not capture these transactions as Internet gambling transactions.

There are a number of other reasons why using financial institutions to control Internet gambling would be of limited effect. In particular, it is important to recognize that alternative payment types, such as ACH payments and checks, are not designed to allow for monitoring of Payees.

Once again, Wachovia appreciates the opportunity to participate at the hearing. We look forward to working with the Subcommittee on this important issue.